# COMMISSION ON STATE TAX AND FINANCING POLICY

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## MEETING MINUTES[1]

**Meeting Date:** November 13, 2003
**Meeting Time:** 10:00 A.M.
**Meeting Place:** State House, 200 W. Washington St., 431
**Meeting City:** Indianapolis, Indiana
**Meeting Number:** 3

**Members Present:** Sen. Lawrence Borst, Chairperson; Sen. Thomas Wyss; Sen. Lindel Hume; Rep. Lawrence Buell; Sandy Bickel.

**Members Absent:** Rep. William Crawford.

## I. Call to Order

Senator Lawrence Borst, Chairman, called the third meeting of the Commission on State Tax and Financing Policy to order at 10:03 a.m.

## II. School Facilities Construction and Financing

Chairman Borst recognized Representative Gregory Porter to testify on House Resolution (HR) 17-2003.

Representative Porter explained HR 17-2003 and stated that there is a need for a more creative way to assist schools in financing their construction costs. He discussed the need for construction financing for Indianapolis Public Schools (IPS). He also indicated that HR 17-2003 would provide a mechanism for school facilities and construction financing that is different from a separate holding company which issues bonds and costs the school corporation more money.

Chairman Borst recognized Mr. Roland Dorson, Executive Vice President, Greater Indianapolis

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[1] Exhibits and other materials referenced in these minutes can be inspected and copied in the Legislative Information Center in Room 230 of the State House in Indianapolis, Indiana. Requests for copies may be mailed to the Legislative Information Center, Legislative Services Agency, 200 West Washington Street, Indianapolis, IN 46204-2789. A fee of $0.15 per page and mailing costs will be charged for copies. These minutes are also available on the Internet at the General Assembly homepage. The URL address of the General Assembly homepage is http://www.ai.org/legislative/. No fee is charged for viewing, downloading, or printing minutes from the Internet.

Chamber of Commerce to testify on the School Capital Investment Project (SCIP) Report.

Mr. Dorson distributed a handout on SCIP to the Commission (Attachment A). He discussed the population growth within Marion County and the need for $832 million for school improvements and enhancements. He stated that it is necessary to reduce reliance upon property taxes as a way to fund schools. He explained that SCIP is designed to provide an alternative to the property tax for financing school construction and also could be used to directly issue school construction bonds. The latter would replace the need for school holding corporations, which he stated would reduce the cost of issuing school construction bonds. He also recommended alternative sources of revenue to finance school construction bonds.

Commission members discussed sewer and infrastructure funding, alternate sources of revenue, the possibility of a statewide SCIP program, and the local option sales tax as a funding source.

Representative Porter concluded the discussion by stating HR 17-2003 and SCIP is a positive starting point.

**III. Enterprise Zone Issues**

Chairman Borst recognized Representative Sheila Klinker to testify on House Resolution (HR) 104-2003.

Representative Klinker thanked the Chairman and discussed her travels throughout the state visiting Enterprise Zones (EZS). She indicated that the Lafayette Enterprise Zone (EZ) is a success and shared information with the Commission about the Lafayette EZ. Representative Klinker indicated that for every dollar spent by an EZ the EZ received $20 in new taxable investment and employment. She also stated that $8.1 million in foregone tax revenue in the Lafayette EZ has leveraged $42 million in additional private investment in the EZ. Representative Klinker thanked the Legislative Services Agency (LSA) for the hard work gathering and compiling the research data for the EZ Project.

Chairman Borst recognized Ms. Diane Powers, Director, Office of Fiscal and Management Analysis, LSA, to speak about the EZ Project.

Ms. Powers indicated that HB 1716-2003 proposed six new income, sales, and property tax incentives for businesses operating in EZs. Ms. Powers indicated that LSA could not estimate the potential fiscal impact of these proposed incentives because a census of EZ businesses did not exist, and comprehensive data was not available relating to business activity in the EZs. As a result, she indicated that the EZ Project was undertaken by LSA to develop the necessary business activity information. She briefly described the cooperative efforts on the project by the Indiana Department of Commerce, researchers at Purdue University, the Indiana Business Research Center, and the Urban Enterprise Associations (UEAs). Ms. Powers also noted the number of LSA staff and the amount of staff time that has been devoted to the EZ Project. Ms. Powers noted that the data collected by LSA so far could be utilized to estimate the potential fiscal impact of only two out of the six tax incentives proposed in HB 1716-2003. She added that LSA still did not have the data necessary to put numbers on the other four tax incentives and needed the cooperation of businesses in the EZs to complete the survey which was being conducted.

Chairman Borst recognized Mr. Jim Landers, Senior Fiscal Analyst, LSA, to provide an overview of the EZ Project.

Mr. Landers asked Commission members to refer to the black binder containing maps and compiled data from the 29 EZs (Attachment B). During his presentation, Mr. Landers provided background information on the EZ Program, including information on EZ establishment, the UEAs, EZ tax incentives, and UEA funding. He indicated that two tax incentives that have served as recruitment tools for the EZs have either been eliminated (the gross income tax exemption) or are being phased out (the inventory tax credit) due to “tax restructuring.” He indicated that besides being recruitment tools the tax incentives also serve as a funding mechanism for the UEAs. He also discussed the EZ project report including the project impetus, project purpose, GIS mapping, business census, survey of business activity, summary of completed work, and the fiscal impact analysis.

Chairman Borst recognized Mr. Dennis Carson, Director, Lafayette UEA, to testify.

Mr. Carson noted the data compiled by LSA will be very helpful. He also indicated that the UEA has reinvested more than $2.1 million of its funds which is similar to the other UEAs across the state. He stated that the EZ Program has paid for itself.

Commission members discussed UEA operation costs and inventory taxes.

Chairman Borst recognized Mr. Kevin Brinegar, President, Indiana Chamber of Commerce, to testify.

Mr. Brinegar stated that the Chamber supports crafting a solution that maintains the viability of the EZs as work is done to eliminate the inventory tax.

Chairman Borst thanked LSA for the work on the EZ Project.

## IV. Properties in Urban Blight Areas

Chairman Borst recognized Senator Glen Howard to testify on Senate Resolution (SR) 37-2003.

Senator Howard explained SR 37-2003 and stated that vacant houses are a particular problem in blighted areas of Indianapolis. He indicated that to achieve economic development in blighted areas there is a need to renovate and market vacant houses as well as a need to work with the Indianapolis Police Department. He asked that representatives of the Indianapolis Department of Metropolitan Development be recognized to speak on this issue.

Chairman Borst recognized Mr. Bruce Baird and Ms. Margaret Lawrence Banning, Department of Metropolitan Development, City of Indianapolis, to testify on efforts to inventory the vacant properties in the city and to alleviate problems for residential and commercial vacancy.

Ms. Banning stated they are concerned for the economic well-being of Indianapolis. She noted that in some areas the private market doesn't work for commercial investments and areas are being abandoned. She stated that this leaves behind the 'big box phenomenon'. She discussed a need for 'smart growth' or growth at a sustainable level. She also discussed strategies for leveling the playing field between inner city areas and “greenfield” areas outside the city. The strategies she outlined included brownfield grants, tax abatements, and community revitalization projects.

Mr. Baird discussed property tax abatements for vacant houses. He also noted that Mayor Bart Peterson gave them a project to inventory all the vacant houses in the city. He said the actual count of vacant houses is 7,913. He noted this costs the municipality a significant amount of money and these houses require reinvestment and renovation, not demolition.

**V. Indiana Comprehensive Health Insurance Association (ICHIA)**

Chairman Borst recognized Mr. Alan Gossard, Deputy Director, Office of Fiscal and Management Analysis, LSA to speak on the issue.

Mr. Gossard presented a report entitled 'An Overview of ICHIA' to the Commission (Attachment C). Mr. Gossard indicated that ICHIA is the state's high-risk health insurance program established by statute. He explained that ICHIA is funded through a combination of client premiums and assessments imposed on member health insurers, HMOs, and other health insurance providers. Mr. Gossard also explained that current statute provides for member companies to offset assessments with credits against the Insurance Premium Tax and the Adjusted Gross Income Tax. Mr. Gossard indicated that participation in ICHIA has risen from 3,080 clients in 1990 to 9,060 clients by August 2003. He indicated that, likewise, ICHIA operating costs have increased substantially during the same period, from $14.85 M in 1990 to $112.17 M in 2002.

Chairman Borst then recognized Mr. Dennis Casey, Chairman, ICHIA Board, and Mr. Doug Stratton, Executive Director, ICHIA.

Mr. Casey noted that this is as important an issue for our entire society as it is for those people who cannot access health care. Mr. Casey pointed out that there has been a significant increase in the cost of health care, both in and out of ICHIA. He stated that ICHIA is getting close to 10,000 members and in 1995 the membership was 4,000, which has been stretching the funding mechanism. He also stated that ICHIA has seen a leveling on the membership side but not on the cost of care side and that the ICHIA Board is taking steps to adjust the benefit plans. Mr. Casey added that he would be glad to assist in the research and analysis of this issue in any way possible.

Mr. Stratton discussed issues relating to ICHIA participation and operating costs (Attachment D). He also pointed out that the ICHIA's inability to assess self-funded insurance plans exempts about one-half of privately insured people in the state from paying for the assessments.

Commission members discussed the federal HIPAA Act, ICHIA care for hemophiliac and HIV patients, similar high-risk programs in other states, ICHIA's relationship to Medicaid, and eligibility for ICHIA.

Chairman Borst recognized Senator Patricia Miller to speak on ICHIA.

Senator Miller stated that the Senate Health Committee has been struggling with the financial issues in funding health care. She noted they passed a bill last year that was a one-year band-aid. She also stated that people in ICHIA want to work, but have a chronic disease that will always need some sort of care or treatment.

Commission discussion included ERISA companies, funding for ICHIA, and assessing self-insured companies.

Chairman Borst recognized Mr. Alex Slabosky, Chief Financial Officer, M-Plan, to testify. Mr. Slabosky also was representing the Indiana Association of Health Plans.

Mr. Slabosky stated that ICHIA benefits people throughout the state and that everyone is eligible if they are in a situation where they need it. He noted that the primary problem with ICHIA funding is that a small percentage of health insurance providers pay the cost of the program not paid for by client premiums. He stated that the program was originally set up to be funded through the state general fund via tax credits taken by insurers to offset the annual

ICHIA assessments. Mr. Slabosky provided an overview of M-Plan assessments and credits (Attachment E). He indicated that in 2002, M-Plan paid a net assessment totaling $3.5 M, while M-Plan's net income totaled only $6.5 M. Further, Mr. Slabosky indicated that M-Plan was able to claim only about $760,000 in tax credits for 2002.

Chairman Borst recognized Craig Kelbel, Executive Vice President, HCC Insurance Holding Company, to testify.

Mr. Kelbel explained that HCC paid an ICHIA assessment totaling about $3 million in 2002 on about $30 M in premiums written in Indiana during the same year. He indicated that HCC currently has about $4.7 M in ICHIA tax credits to carry forward because of the assessments. He explained that it is almost impossible for HCC to offer coverage to Indiana residents with the assessments at over 10% of premiums written (Attachment F).

Commission members discussed the benefits of ICHIA in Indiana versus benefits of similar programs in other states, and that Indiana's benefits often exceed other states.

Chairman Borst recognized Tom Zurek, General Counsel of AUL, to testify.

Mr. Zurek discussed stop loss insurance. He noted the there had to be a credit for various assessments and that the credit should be fair and accurate. He also stated that available tax offsets have been exceeded and they are now paying an unintended tax resulting in difficulty selling their product. He offered alternatives of changing the rate structure or passing cost on to various institutions.

Chairman Borst again recognized Mr. Kevin Brinegar, President, Indiana Chamber of Commerce. Mr. Brinegar noted that the state of Indiana made the correct choice in establishing the high-risk program but that assessments have reached the point that many companies cannot fully utilize the tax credits.

Chairman Borst recognized Mr. Steve Johnson, President of the Indiana Fiscal Policy Institute, to testify.

Mr. Johnson distributed a handout on funding ICHIA (Attachment G). He noted that 31 states have high-risk pools and the risk pool participation. He also described different funding options for ICHIA.

**VI. Assessment of Tax Exempt Property & Review of HEA 2005-2003**

An LSA memorandum (Attachment H), Fiscal Note (Attachment I) relating to assessment of exempt property, and HEA 2005-2003 (P. L. 264-2003) were distributed to the Commission.

Chairman Borst recognized Ms. Heather Scheel, General Counsel, Department of Local Government Finance (DLGF), to testify.

Ms. Scheel provided a brief overview of HEA-2005-2003 (Attachment J) and indicated that the DLGF is moving forward with their responsibilities relating to this issue. Ms. Scheel answered questions from the Commission concerning how nonprofits are assessed. She noted that nonprofits are always assessed, but are exempt from property taxes. She indicated that government-owned property is not assessed.

Chairman Borst recognized Mr. Paul Ricketts, Lawrence Township (Marion Co.) Assessor, to testify.

Mr. Ricketts stated that sometimes nonprofits own property, a portion of which contains a profit-making venture. Thus, the nonprofit has to be assessed and taxed in relation to the property containing for-profit ventures.

Chairman Borst recognized Ms. Joan Romeril, Marion County Assessor, to testify.

Ms. Romeril noted that they constantly have people who forget to file and this causes problems with assessment.

## VII. Adjournment

Chairman Borst adjourned the meeting at 1:25 p.m.